FDIC State Profile

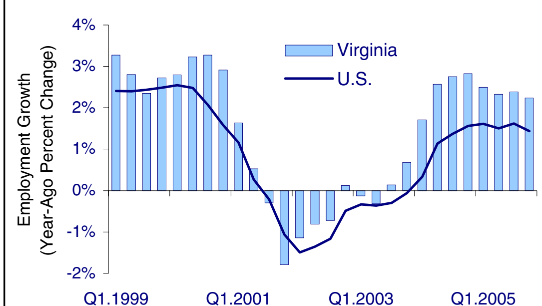
Spring 2006

Virginia

Virginia's employment growth remains healthy.

- Recently revised employment data indicate that Virginia's economy continues to flourish. In fourth quarter 2005, job growth in the state was 2.2 percent compared to the national average of 1.4 percent (see Chart 1). The statewide unemployment rate of 3.4 percent ranks among the lowest nationally.
- The state created just over 80,000 jobs over the past year. Many industries, such as construction, professional, healthcare, and government had solid gains over the past year. However, manufacturing remained a drag on the state's economy, experiencing a net loss of more than 3,500 jobs over the past year.

Chart 1: Virginia's Employment Growth Remains Above Average

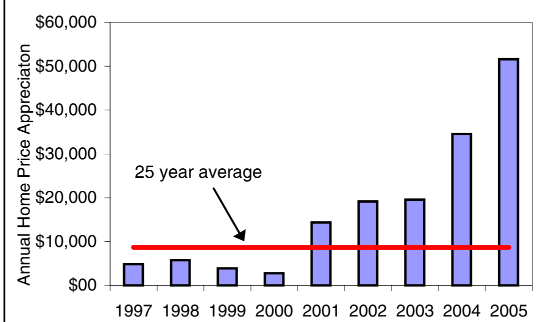


Source: Bureau of Labor Statistics

Home price appreciation accelerated in 2005.

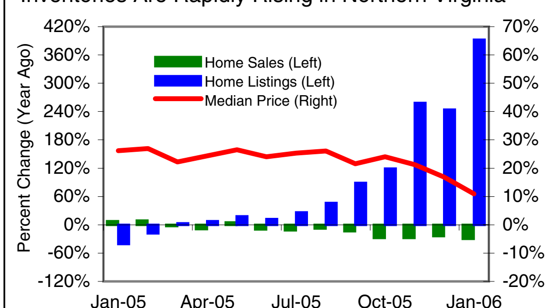
- According to the Office of Federal Housing Enterprise Oversight, the house price index for the state rose 19.7 percent in 2005. Median home prices rose by nearly $52,000 last year, which was a record increase and well above the $8,649 average over the last 25 years (see Chart 2). The Greater **Washington D.C.** area was the fastest appreciating metropolitan market in the state with an annual price gain of nearly $100,000. Other areas with rapid price appreciation include **Virginia Beach** at $37,000 and **Charlottesville** at $28,000.
- Although home price appreciation accelerated in 2005, housing remains comparatively affordable. According to the National Association of Homebuilders-Wells Fargo Housing opportunity index, just 41 percent of homes nationwide are considered affordable for all U.S. households, nearly 51 percent of homes sold in Virginia Beach, for example, would be considered affordable for a family earning the median income in the metropolitan area.

Chart 2: Annual Home Price Appreciation in Virginia Was at a Record Level in 2005



Source: Moody's Economy.com (Median existing home price)

Chart 3: Existing Home Sales Are Declining and Inventories Are Rapidly Rising in Northern Virginia



Arlington County, Fairfax County, Alexandria City, Falls Church City, and Fairfax City
Source: Metropolitan Regional Information Systems, Inc.

The inventory of unsold existing homes is growing.

- By late 2005, home inventory saw significant increases and were outpacing growth in home sales in some Virginia metropolitan markets, such as **Northern Virginia** (see Chart 3). In Northern Virginia, the total number of homes listed for sale in January 2006 was nearly 400 percent higher than a year ago representing a 2.5-month supply, which is up sharply from a 0.4-month supply a year earlier. The slowing pace of home sales and growing inventory levels from a year ago suggest that marketing times may lengthen, potentially leading to slower price gains in 2006.

Bank profitability expands due to strong loan growth.

- Profitability at Virginia community banks improved during 2005.[1] Return on assets (ROA) gained nearly 6 basis points to 1.18 percent during the 12-month period (see Chart 4). Significantly higher net interest income was primarily due to strong loan growth. Overall, loans increased more than 13 percent led by double-digit growth in construction and development (C&D), multifamily, and home equity loans. Lower loan loss provisioning also contributed to the profitability improvement.

The changing yield curve shape has affected net interest margins (NIMs).

- Community bank NIMs have shown clear reactions to changes in the level and shape of the yield curve (see Chart 5). During 2001 and 2002, NIMs initially expanded as rate cuts led to lower funding costs, but margins then fell as borrowers refinanced high volumes of residential mortgages and other loans. By mid-year 2004 margins stabilized and then started trending upward. While funding costs have been slower to rise because of repricing lags, they have recently begun to accelerate, suggesting that NIM pressures may emerge in 2006.

Commercial real estate (CRE) lending concentrations are at unprecedented levels.

- CRE lending has been an important performance driver during the past ten years. Outstanding CRE loans have grown from $4.5 billion, or 43.7 percent of assets, in 1996 to $17 billion, or 57.5 percent of assets, in 2005.

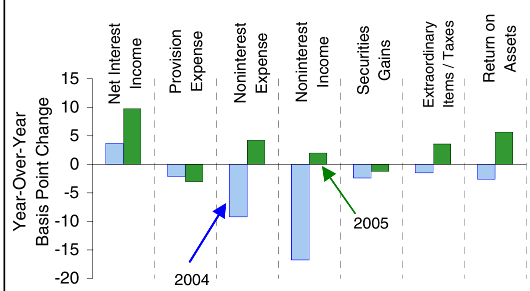
- Within the CRE loan portfolio, C&D loans have been the fastest growing segment. C&D loans grew 38 percent during 2005, which was the eleventh consecutive year that double-digit growth has occurred. The majority of C&D lending is for residential housing, and continued strong absorption of new housing units will be a crucial factor in performance.

- Concentrations of C&D loans have increased significantly and are well above the past cyclical high reached in the late 1980s (see Chart 6). Specifically, 40 community banks (38 percent) in Virginia had an exposure of C&D loans of 100 percent or more of capital. In sharp contrast, only 19 community banks (12 percent) had a C&D loan to equity ratio of 100 percent or higher in 1989 at the past cyclical high.

- In response to growing concentration levels among some FDIC-insured institutions nationwide, Federal banking regulatory agencies recently proposed supervisory guidance for CRE loan portfolios. The proposed guidance addresses a number of issues including the need for banks with high CRE concentrations or growth in CRE lending to have strong risk management practices, sound underwriting standards, and capital levels commensurate with risk. The comment period for the proposed guidance has been extended to April 13, 2006.

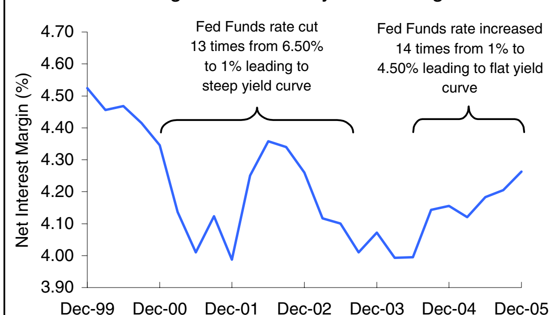
[1]Community banks have assets of $1 billion or less.

Chart 4: Profitability Gains Have Started to Moderate, But Remain Positive at Virginia Community Banks



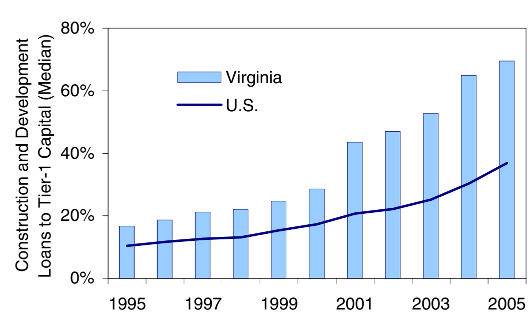
Source: FDIC, year-end data. Community banks have assets of $1 billion or less.

Chart 5: The Dynamic Interest Rate Environment Is Reflected in Virginia Community Bank Margins



Source: FDIC, quarterly data. Community banks have assets less than $1 billion.

Chart 6: Construction and Development Loans Continue to Grow at Virginia Community Banks



Source: FDIC (Community banks have assets less than $1 billion).

Virginia at a Glance

ECONOMIC INDICATORS (Change from year ago, unless noted)

Employment Growth Rates	Q4-05	Q3-05	Q4-04	2004	2003
Total Nonfarm (share of trailing four quarter employment in parentheses)	2.2%	2.4%	2.8%	2.5%	0.1%
Manufacturing (8%)	-1.2%	-1.1%	-0.1%	-2.0%	-4.7%
Other (non-manufacturing) Goods-Producing (7%)	6.5%	6.0%	5.7%	6.0%	1.2%
Private Service-Producing (67%)	2.4%	2.5%	3.0%	2.8%	0.6%
Government (18%)	1.7%	2.0%	2.6%	2.1%	0.4%
Unemployment Rate (% of labor force)	3.4	3.6	3.6	3.7	4.1

Other Indicators	Q4-05	Q3-05	Q4-04	2004	2003
Personal Income	N/A	7.4%	9.6%	7.8%	4.2%
Single-Family Home Permits	-0.1%	-0.4%	1.1%	2.3%	2.4%
Multifamily Building Permits	-12.2%	-24.6%	-14.5%	34.0%	-19.9%
Existing Home Sales	-16.3%	-3.6%	20.8%	17.5%	5.5%
Home Price Index	19.7%	19.5%	17.5%	15.1%	8.1%
Nonbusiness Bankruptcy Filings per 1000 people (quarterly annualized level)	7.12	6.00	4.82	5.31	5.76

BANKING TRENDS

General Information	Q4-05	Q3-05	Q4-04	2004	2003
Institutions (#)	144	140	140	140	141
Total Assets (in millions)	269,406	261,467	221,220	221,220	181,595
New Institutions (# < 3 years)	12	10	12	12	8
Subchapter S Institutions	2	1	1	1	0

Asset Quality	Q4-05	Q3-05	Q4-04	2004	2003
Past-Due and Nonaccrual Loans / Total Loans (median %)	0.99	1.05	1.00	1.00	1.52
ALLL/Total Loans (median %)	1.13	1.15	1.16	1.16	1.21
ALLL/Noncurrent Loans (median multiple)	4.01	3.21	2.78	2.78	2.36
Net Loan Losses / Total Loans (median %)	0.06	0.03	0.08	0.07	0.11

Capital / Earnings	Q4-05	Q3-05	Q4-04	2004	2003
Tier 1 Leverage (median %)	9.19	8.95	8.73	8.73	8.50
Return on Assets (median %)	1.11	1.12	1.10	1.03	1.07
Pretax Return on Assets (median %)	1.58	1.62	1.52	1.46	1.52
Net Interest Margin (median %)	4.25	4.21	4.08	3.94	3.95
Yield on Earning Assets (median %)	6.45	6.25	5.80	5.65	5.95
Cost of Funding Earning Assets (median %)	2.32	2.17	1.73	1.68	1.93
Provisions to Avg. Assets (median %)	0.11	0.14	0.16	0.18	0.20
Noninterest Income to Avg. Assets (median %)	0.59	0.64	0.65	0.64	0.65
Overhead to Avg. Assets (median %)	2.91	2.90	2.94	2.93	2.91

Liquidity / Sensitivity	Q4-05	Q3-05	Q4-04	2004	2003
Loans to Assets (median %)	70.8	71.1	70.9	70.9	66.7
Noncore Funding to Assets (median %)	19.7	19.1	18.2	18.2	16.4
Long-term Assets to Assets (median %, call filers)	15.6	15.8	15.1	15.1	19.1
Brokered Deposits (number of institutions)	36	34	36	36	30
Brokered Deposits to Assets (median % for those above)	3.8	5.2	4.1	4.1	2.8

Loan Concentrations (median % of Tier 1 Capital)	Q4-05	Q3-05	Q4-04	2004	2003
Commercial and Industrial	71.7	73.8	74.3	74.3	84.3
Commercial Real Estate	331.1	330.1	323.9	323.9	289.5
Construction & Development	68.9	69.4	65.0	65.0	49.6
Multifamily Residential Real Estate	9.4	10.0	8.4	8.4	6.9
Nonresidential Real Estate	193.3	197.1	194.6	194.6	198.9
Residential Real Estate	224.6	236.1	247.1	247.1	244.1
Consumer	41.2	41.0	44.8	44.8	51.0
Agriculture	5.0	5.5	5.5	5.5	6.2

BANKING PROFILE

Largest Deposit Markets	Institutions in Market	Deposits ($ millions)	Asset Distribution	Institutions
Washington-Arlington-Alexandria, DC-VA-MD-WV	103	130,985	< $250 million	73 (50.7%)
Richmond, VA	36	33,475	$250 million to $1 billion	54 (37.5%)
Virginia Beach-Norfolk-Newport News, VA-NC	31	16,042	$1 billion to $10 billion	10 (6.9%)
Roanoke, VA	16	4,794	> $10 billion	7 (4.9%)
Kingsport-Bristol-Bristol, TN-VA	26	3,893		